Government of Saskatchewan

Annual Report 1986-87

Agricultural Credit Corporation of Saskatchewan

Saskatchewan

88-03449/

Annual Report
1986-87

Agricultural Credit Corporation of Saskatchewan

Letters of Transmittal

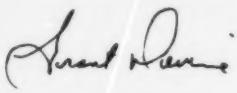
Regina, Saskatchewan
April, 1987

His Honour Frederick W. Johnson
Lieutenant Governor
Province of Saskatchewan

Sir:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 1987.

Respectfully submitted,



Grant Devine, Premier
Minister-in-Charge
Agricultural Credit Corporation
of Saskatchewan

Regina, Saskatchewan
April, 1987

Honourable Grant Devine, Premier
Minister-in-Charge
Agricultural Credit Corporation
of Saskatchewan

Sir:

Presented herewith is the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 1987.

Respectfully submitted,

Jack Drew
Chairman, Board of Directors
Agricultural Credit Corporation
of Saskatchewan

General Manager's Report

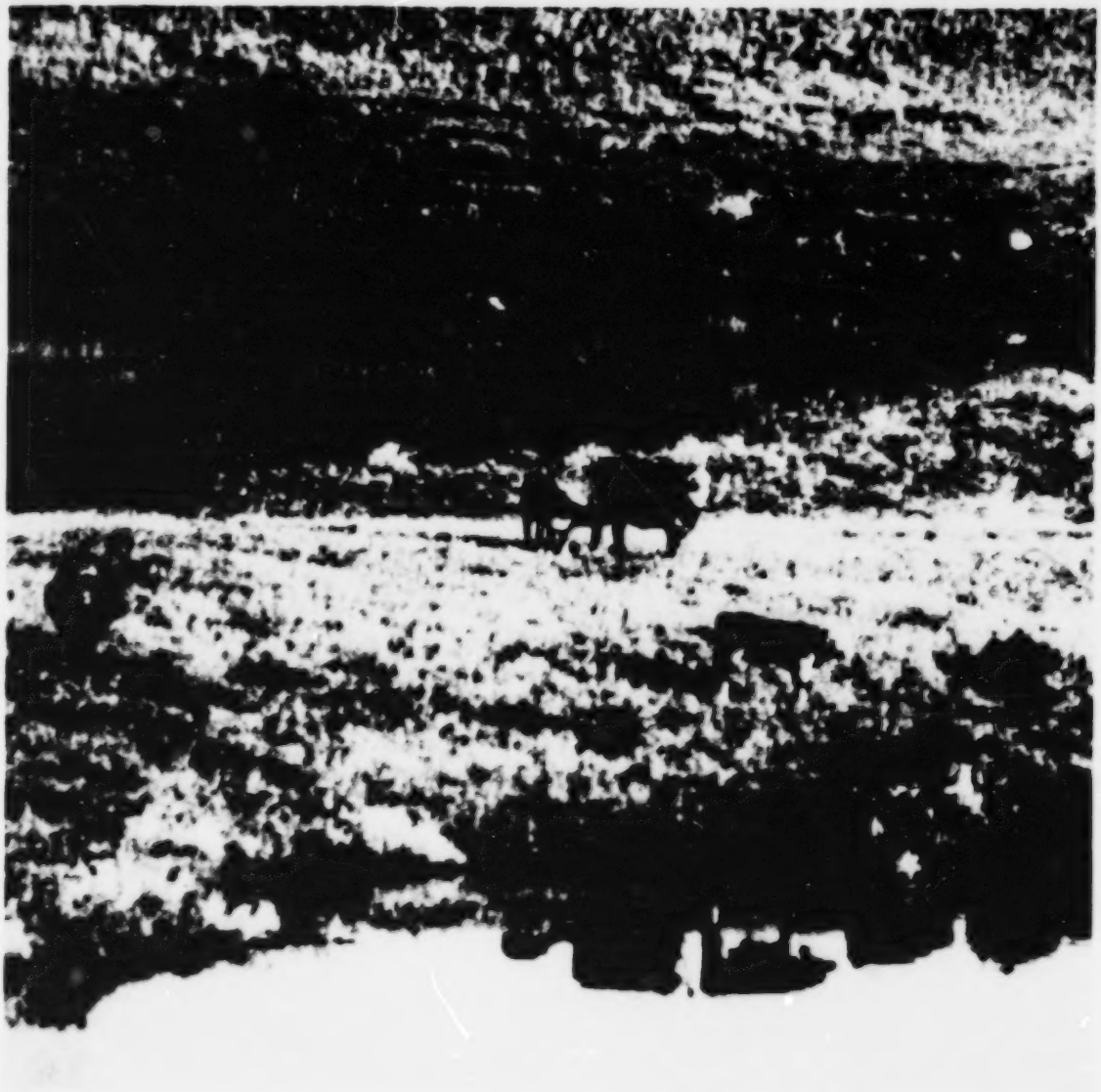
As administrators of the Production Loan Program and the Livestock Cash Advance Program ACS has become one of the largest agricultural lenders in the province, with loans outstanding in excess of 1.3 billion dollars.

The Capital Loan Program has been expanded to include bison as well as mushroom and greenhouse operations. Expansion into these areas reflect the interest of Saskatchewan producers in reducing their dependence on the traditional enterprises.

The Production Loan Program was expanded to encompass other enterprises in the agricultural sector. These included honey producers, potato producers and greenhouse operations. Loans under the Livestock Cash Advance Program made during the previous year were extended on an interest free basis for an additional year.

ACS continues to work closely with those clients facing difficulties to effect mutually acceptable repayment schedules. This is reflected in the stable delinquency statistics and the continuing excellent relationships with our clients.

With the relocation to Swift Current imminent, the Corporation has proceeded with the acquisition of an in-house computer system. This system will enable us to transfer our system from SaskComp soon after the Head Office is re-established. The availability of this processing facility will be an important asset in addressing the challenges which lay before us in the coming years.



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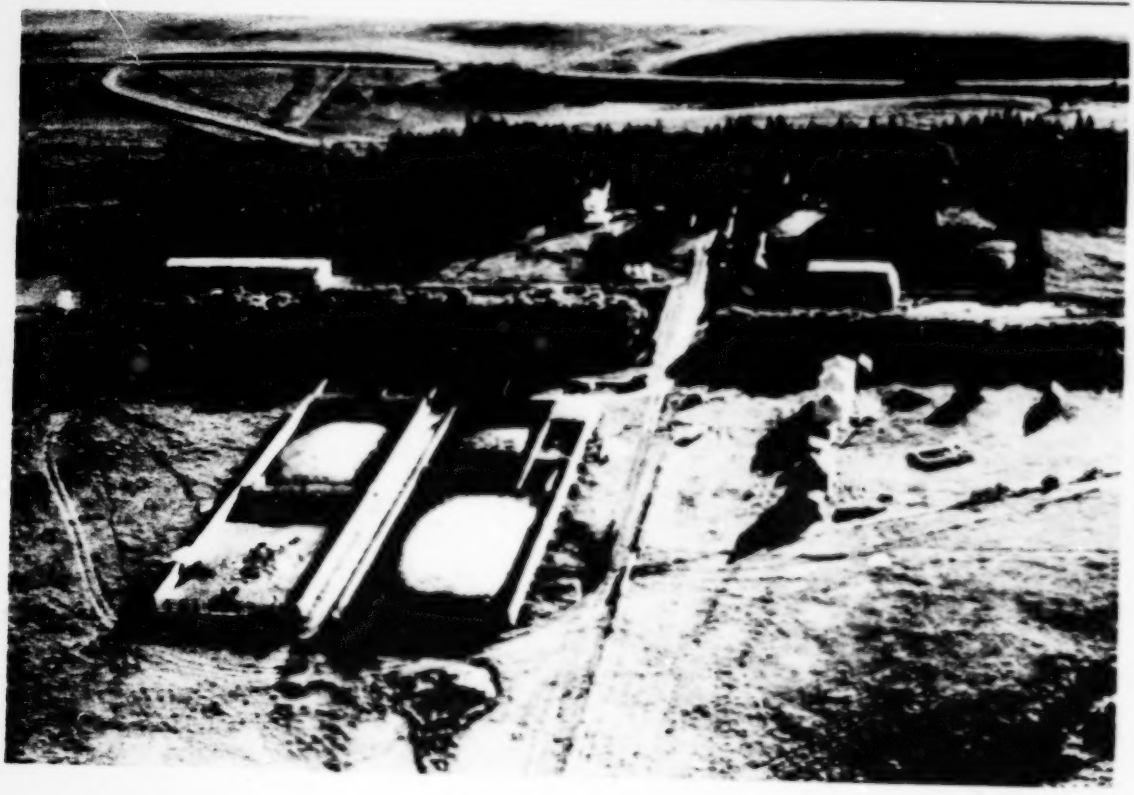


Organization

The Agricultural Credit Corporation of Saskatchewan (ACS) is a crown corporation continued pursuant to **The Agricultural Credit Corporation of Saskatchewan Act**.

Reporting to the Minister-in-Charge, a Board of Directors is responsible for managing the affairs of ACS. At March 31, 1987, the members of the Board were Mr. Jack Drew (Chairman), Dr. Gary Storey (Vice-Chairman), Mr. Jim Young, Mr. Albert Nicholauson, Mr. John Schreiner and Mrs. Connie Blacklock.

The Corporation's head office is in Regina and provides senior management, research and centralized administrative functions. Client services are provided by staff in regional and district offices throughout the province. Ir addition, regular office days are held in other communities in order to provide clients with convenient access to ACS programs.

Corporate Officers and Senior Staff
(Regina Head Office except where otherwise noted)

General Manager	Norm S. Ballagh
Research Analyst	Oswald L. Henry
Manager of Administration	Morley L. Machin
Senior Accountant	Barry J. Miller
Senior Administrative Officer	Dennis P. Schmidt
Co-ordinator of Loans and Securities	Robert L. Shoemaker
Manager of Field Operations	Denis H. Cote
Regional Managers:	
Weyburn	Lyle M. Ballard
Swift Current	Dennis J. Lafreniere
Tisdale	Donald W. Petrar
Saskatoon	Joseph A. Rakochy
North Battleford	Robert I. Foreman

Regional Offices

ACS Office Locations:	Telephone:
Head Office	
331-3085 Albert Street Regina, Saskatchewan S4S 0B1	(306) 787-6460
South-East Region	
Regional Office:	
Weyburn Square 110 Souris Avenue Weyburn, Saskatchewan S4H 2Z9	842-4607
District Office:	
Box 399 Indian Head, Saskatchewan S0G 2K0	695-2263
Box 1319 Moosomin, Saskatchewan S0G 3N0	435-3357
South-West Region	
Regional Office:	
E. I. Wood Building 350 Cheadle Street West Swift Current, Saskatchewan S9H 4G3	773-2966
District Offices:	
Box 250 Assiniboia, Saskatchewan S0H 0B0	642-5955
118 W. G. Davies Building 110 Ominica Street West Moose Jaw, Saskatchewan S6H 6V2	694-3618
Central Region	
Regional Office:	
3130-8th Street East Saskatoon, Saskatchewan S7K 2H6	933-5353
District Offices:	
Box 9 Outlook, Saskatchewan S0L 2N0	867-8684
Water Supply Board Building Box 1240 Watrous, Saskatchewan S0K 4T0	946-3395

ACS Office Locations:	Telephone:
North-East Region	
Regional Office:	
Provincial Building 1107-99th Street Box 1480 Tisdale, Saskatchewan S0E 1T0	873-2693
District Offices:	
Main Floor — McIntosh Mall 800 Central Ave., Box 3003 Prince Albert, Saskatchewan S6V 6G1	953-2770
A. G. Kuziak Building 72 Smith Street East Yorkton, Saskatchewan S3N 2Y4	783-9743
North-West Region	
Regional Office:	
Provincial Building 1146-102nd Street North Battleford, Saskatchewan S9A 1E9	446-7646
District Offices:	
Box 1000 Shellbrook, Saskatchewan S0J 2E0	747-2151
Box 369 Meadow Lake, Saskatchewan S0M 1V0	236-4441

Agriculture typically accounts for one half of Saskatchewan's gross provincial product and is also a major contributor to Canada's export earnings. The continued growth of this sector will directly benefit farmers and indirectly lead to enhanced opportunities for secondary processing and manufacturing in the province.

A key factor in realizing the sector's growth potential is the availability and terms of credit. Thus ACS uses credit as a tool to achieve its prime objective which is to assist developing farmers to establish profitable units. Emphasis is placed on intensifying and diversifying the agricultural sector through livestock and irrigation enterprises.

A. Capital Loan Program

1. Operation

Criteria

Applicants must make farming their principal occupation and be Canadian citizens or landed immigrants resident in Saskatchewan during the term of the loan.

The net worth of the applicant and spouse must not exceed $450,000 and their average non-farm income during the previous three years must not exceed $35,000 for applicants without dependents, $45,000 for those with dependents.

Purposes

ACS loans may be used for the following:

1. Purchase livestock for breeding purposes.
2. Avoid disposing of livestock.
3. Clear, break and sow land for grazing or perennial forage crops.
4. Purchase, construct or renovate buildings, improvements, or facilities and purchase equipment to be used in the establishment or expansion of livestock, greenhouse and mushroom production.
5. Purchase a maximum of one quarter section of land for the purpose of carrying on intensive livestock, greenhouse or mushroom operations on that land.
6. Purchase feeder livestock for the purpose of feeding and preparing them for slaughter.
7. Purchase machinery and equipment for the production of irrigated crops.
8. Purchase or construct storage, processing or packaging facilities and equipment for irrigated crops.
9. Carry out any land development work that may be required for the production of irrigated crops.
10. Refinance loans secured by farmers to establish, maintain or expand livestock, mushroom, greenhouse and irrigated crop production.
11. Assist a farmer to take training related to his farm operation.

Loan Amounts

The maximum loan is $350,000: the minimum loan is $10,000.

Interest Rates

Interest rates are fixed for the term of the loan and are based on the applicant's net worth.

Interest rates for subsidized loans are 8% for the first five years, 12% for the next five years and at a rate based on the Corporation's cost of borrowing, at the time of loan approval, for the remaining five years. Prior to March 31, 1987, this last rate was 13%.

Effective January 1, 1986, subsidized loans which are made for livestock facilities are charged 8% for the full term of the loan.

The amount of loan eligible for subsidized rates is reduced from $350,000 by $3.50 for every $1.00 of net worth exceeding $300,000, with any remaining portion of the loan being at the non-subsidized rate. Prior to March 31, 1987, this rate was 13%.

Interest rates on loans made in prior fiscal years are also fixed for the term of those loans. Depending on the date of loan approval, interest rates vary from 6% to 14%.

Security

ACS security requirements recognize both the need to protect public funds advanced by the program and the ability of developing farmers to provide security.

Security may include assets acquired with loan funds and may be in the form of land mortgages and security agreements on other assets. Guarantees on behalf of the applicant are also acceptable.

All loans must be adequately protected by life insurance. ACS offers a group life insurance program although assignments of other life insurance policies are acceptable.

Application Procedures

Information on the ACS loan program is available from Corporation staff located throughout the province. Department of Agriculture staff, including Agricultural Representatives, also provide information.

Eligibility is determined by the applicant's Statement of Affairs which details net worth and non-farm income and describes the purpose for which loan funds are sought.

Eligible applicants must complete a farm plan and other detailed budgets. Assistance is available from ACS field staff to complete these plans which indicate the potential to develop an economically viable farm unit. In addition, counselling and technical advice are available from Farm Management Specialists, Livestock Specialists, Agricultural Engineers and other Department of Agriculture staff.

ACS field staff will review the completed farm plan and other budget material and make a decision on the loan.

Operating Credit

In addition to the capital funds provided by ACS, many clients need operating credit to enable them to carry out their proposal. In this situation, ACS may offer to guarantee an operating loan the client obtains from a commercial lender. These guarantees are only available to clients with ACS capital loans.

Operating loan guarantees are based on cash flow projections completed by the client and field staff. If a guarantee is to be provided, the client will be given a guarantee form to take to the commercial lender of his choice. The form will specify the amount and duration of the guarantee as well as the security to be taken.

2. Assistance Provided

ACS approved 417 loans during the 1986-87 fiscal year, totalling $20,540,242. This represented an increase of 57% over the previous year. There was, however, a decrease in the average loan size from $63,901.34 in 1985-86 to $49,257.17 in 1986-87, approximately 23%. The most significant movement was the increase in the number of hog loans, up 460% from 25 to 175 on a volume basis from $1,310,700 to $7,368,133. The average loan size in this enterprise declined 19.1%, from $52,428 in 1985-86 to $42,345.60 in 1986-87.

Hogs represented 35.87% of the applications this year compared to 31.56% for beef and 10% for hogs in the previous year. This enabled hogs to surpass beef as the primary purpose of applications. Dairy loans continued to increase in numbers and value, growing by 60% from the previous year. They still represented only 23.37% of total loans, down from the 1985-86 level of 28%.

Table 1

Credit Activity

Year	Number*	Loans	Grants	Total
1973-74	844	$ 18,478,824	$ 4,042,760	$ 22,521,584
1974-75	1,192	25,383,824	5,268,640	30,652,464
1975-76	639	12,996,411	2,648,016	15,644,427
1976-77	348	8,091,300	1,322,666	9,413,966
1977-78	379	10,600,107	1,076,082	11,676,189
1978-79	375	12,891,656	1,370,601	14,262,257
1979-80	658	25,050,263	1,953,457	27,003,720
1980-81	1,059	44,270,642	2,202,218	46,472,860
1981-82	880	36,989,382	1,540,854	38,530,236
1982-83	463	18,108,897	510,719	18,619,616
1983-84	295	13,778,096	0	13,778,096
1984-85	381	20,863,676	0	20,863,676
1985-86	205	13,099,775	0	13,099,775
1986-87	417	20,540,242	0	20,540,242
Total		$281,143,095	$21,936,013	$303,079,108

* Prior to 1978-79: Applications Approved
As of 1978-79: Loans Approved

Table 2

Approvals by Type and Region

For the Year Ended March 31, 1987

Region	Hogs	Beef	Dairy	Irrigation	Other	Total	Number of Loans
Weyburn	$ 650,480	$1,522,410	$1,159,889	$106,700	$ 0	$ 3,500,179	68
Swift Current	1,134,735	1,244,855	580,400	141,870	0	3,101,860	71
Tisdale	1,471,748	283,760	729,200	40,500	982,300	3,467,008	67
Saskatoon	1,989,970	1,613,700	1,078,875	45,500	460,650	5,188,695	90
North Battleford	2,121,200	1,817,800	1,252,100	25,800	65,600	5,282,500	121
Total	$7,368,133	$6,483,525	$4,800,464	$360,370	$1,508,550	$20,540,242	
Number of Loans	174	156	56	9	22		417

Table 3

Loan Disbursement Purposes

For the Year Ended March 31, 1987

Type	Buildings and Improvements	Livestock	Machinery and Equipment
Hogs	84.37%	9.38%	6.25%
Beef	20.81	68.48	10.71
Dairy	58.58	36.18	5.23
Bees	97.00	.50	2.50
Irrigation	0.00	0.00	100.00
Sheep	46.00	34.00	20.00
Poultry	98.00	0.00	2.00

Table 4

Net Approvals by Type

To March 31, 1987

Type	Loans	Amount
Hogs	1,396	$ 48,214,214
Beef	4,757	123,720,404
Dairy	1,120	58,323,843
Poultry	112	6,809,346
Sheep	77	1,963,595
Bees	171	7,526,313
SSRID Irrigation	88	3,471,104
Other Irrigation	182	9,566,169
Other	51	1,892,800
Total	7,954	$261,487,788

3. Repayments

March 31, 1987 saw ACS with 3,995 active clients, 3,788 of whom had begun repayment on their loans. The date of first repayment on ACS loans is set to coincide the client's sale of production.

Depending on the enterprise, repayment may be established on a monthly, quarterly, semi-annual or annual basis. The maximum loan term remains at 15 years. Partial or complete repayment of loans may be made at any time without penalty.

Arrears at March 31, 1987 amounted to 26%. This was a slight increase on the 24% of the previous year. The increase in arrears is largely attributable to the difficult economic situation facing many Saskatchewan farmers. The arrears would have been significantly higher but for the continued efforts of ACS field staff working with clients to re-establish loan repayment arrangements.

4. Client Profile

In order to evaluate the program's effectiveness in assisting developing farmers, the following profiles were developed which pertain to those clients whose applications for loans were approved in 1986-87.

New Farmers

Eighty-four of the 260 applicants approved for loans reported little or no farm income prior to application. The average age was 30 years and their non-farm income averaged $8,683.

This group of clients had average gross assets of $268,404 with an average net worth of $101,025. Their debt load was divided between $44,226 short term and $128,431 long term. The average land base was 703 acres, 338 of which were owned.

The average assistance approved was $107,779, an increase of $10,850 over the previous year. Hog enterprises received an average $133,178, an increase of 60% over a year earlier. Beef enterprises with assistance at $70,242 and dairy enterprises at $169,185 show little change from the previous year.

Expanding Farmers

The 176 applicants who had had previous farm involvement, were an average age of 31 years, unchanged from the 1985-1986 year. They reported average gross farm income of $67,732 and a net farm income of $6,272. The non-farm income averaged $9,068, an increase of $2,503 from the '85-'86 year.

Gross assets for these farmers averaged $311,903 and their average net worth was $146,958. Their debt load was divided between short term debts of $21,739 and long term debts of $148,419. They owned 398 acres of a land base of 859 acres.

Average assistance approved for this group was $91,188. Hog enterprises received $82,475, down $9,048 from the previous year. Beef enterprises received $55,034, unchanged, and dairy enterprises increased by $105,147 to average loans of $233,680.

B. Guaranteed Loan Programs

In addition to the direct loan assistance to farmers ACS administers several loan guarantee programs.

1. Guaranteed Operating Loans (GOL)

To assist those clients who have obtained a capital loan and who lack the necessary finances to meet immediate cash flow requirements, the Corporation provides guaranteed operating loans which are obtained from the lender of the client's choice. Loans guaranteed prior to January 1, 1984, are covered to the extent of eighty percent of any loss to the lender. Subsequent loans are guaranteed to ninety percent.

During the fiscal year, the Corporation guaranteed 8 operating loans totalling $227,999.

As of March 31, 1987 $763,306.63 was outstanding.

2. Guaranteed Operating Loans for Feeders (GOLF)

Effective January 1, 1984, ACS implemented the Guaranteed Operating Loans for Feeders program to assist the feedlot industry and to encourage increased cattle feeding in Saskatchewan. To be eligible for assistance an individual must have a net worth of under $300,000 and non-farm income of under $35,000. Applicants must also be bona fide farmers.

Loans may be up to $350,000 for feedlots and up to $100,000 for farmers having animals custom fed. Loan funds may be used for the purchase of feeders, feed and normal feedlot operating expenses providing cattle are fed in Saskatchewan.

Application was made through banks and credit unions. The program expired December 31, 1986. Lenders will be reimbursed by ACS for eighty percent of any losses under the program. As of March 31, 1987 the balance outstanding is $79,286.45.

3. Guaranteed Livestock Loans (GLL)

Beginning October 15, 1974, the Guaranteed Livestock Loans program provided assistance similar to the discontinued Livestock Loans Guarantee Act.

There was no interest subsidy offered under GLL but lenders are limited to charging a maximum of two percent above their prime interest rates. Loans were for seven years and could be used to purchase female cattle and sheep for breeding purposes. ACS guarantees that lenders will recover eighty percent of any loss on these loans.

The program concluded December 31, 1983, although loans and guarantees approved prior to that date will continue. As of March 31, 1987, $146,348.21 was outstanding.

C. Beef Industry Assistance Programs (BIAP)

In response to low cattle prices, the Corporation provided one year interest free advances in 1974, 1975 and 1976. In the last year, these loans were combined with grants totalling $31 million. During the three year period loans totalling over $167 million involving an interest subsidy of almost $15 million were made.

As of March 31, 1987, outstanding loans totalled $258,062.00.

D. Livestock Cash Advance Program (LCAP)

The Livestock Cash Advance Program, implemented by the Corporation in 1985, provides livestock producers with interest free loans based on their livestock inventory to enable them to meet their immediate cash requirements while retaining their animals for future sale.

Eligibility under this Program requires that applicants must be:

- an individual actively engaged in farming and a resident in Saskatchewan who is a Canadian citizen or permanent resident of Canada, or
- a partnership, cooperative or a corporation with a head office in Saskatchewan which is principally carrying on business in Saskatchewan with at least one partner, member or shareholder who meets the eligibility criteria for an individual.

Loans are based on the livestock inventory owned by the applicant as follows:

All Beef and Dairy Cattle	$125 per head
Horses	$125 per head
Sheep	$ 25 per head
Goats	$ 25 per head
Hogs	$ 25 per head

The loans are interest free for twelve months from the date of disbursement. If the producer reduces his inventory below that on which his loan has been based a proportionate amount of the loan must be paid within 30 days. Any amount in arrears is charged interest at 11 3/4% per annum.

Application forms are available through Rural Municipal offices, the Saskatchewan Pork Producers Marketing Board and the Corporation's offices.

During the 1986-87 year, clients were provided the opportunity to roll over advances for an additional 12 months interest free. During this year 6,433 more applications were processed and earlier loans were rolled over for a total disbursement of $213,112,925 to 22,453 applicants.

Table 5

Livestock Cash Advance Program Loan Disbursement by Type

To March 31, 1987

Type of Livestock	Number Reported	Loans Disbursed
Beef and Dairy Animals	1,545,151	$193,143,875
Horses	40,872	5,109,000
Sheep and Goats	34,701	867,525
Hogs	559,701	13,993,525
		$213,112,925

E. Production Loan Program (PLP)

The PLP, which commenced in January, 1986, extended into the 1986-87 fiscal year. This program provided Saskatchewan farmers with loans at a low, fixed rate of interest over several years and enabled producers to plant the 1986 crop. The deadline for applications was July 31, 1986 for crop and honey operations and September 15, 1986 for greenhouse and potato operations.

To be eligible for loans under this program, applicants had to:

- be actively engaged in farming in Saskatchewan or manage a farm under a custom farming agreement requiring them to purchase the goods and services used in production.
- if an individual, be a Canadian citizen or a permanent resident of Canada and either be a Saskatchewan resident or; if not, have filed income tax returns as carrying on farming in Saskatchewan.
- if a partnership, cooperative or corporation with a head office in Saskatchewan principally carrying on business in Saskatchewan and have at least one partner, member or shareholder who meets the above qualifications for an individual.

Loans are based on the nature and scale of farming operations as follows:

General Crop Production	$25 per cultivated acre
Potato Production	$250 per seeded acre
Honey Production	$25 per bee colony
Greenhouse Production	$2.50 per square foot

The maximum loan to an individual was $100,000 while a multiple operator unit could receive up to $200,000.

The loans bear interest at six percent during the three year term of the loan. Payments of one-third of the principal plus accrued interest are due on the three successive anniversaries of loan disbursement. If the acreage farmed is reduced, below that on which the loan is based, a proportionate amount of the loan must be repaid within 30 days. Any amount in arrears is charged interest at prime plus two per cent per annum.

Application forms were available through elevator delivery points and the Corporation's offices.

Through the use of an extension form, clients were provided the option to defer their principal payment for 1 year. They were still required, however, to pay the interest. Total program disbursements were $1,093,818,235 to 57,614 applicants.

Table 6

Production Loan Program Disbursements by Type

To March 31, 1987

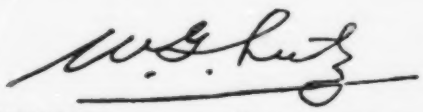
Type of Operation	Number Reported	Loans Disbursed
General Crop Production	43,586,197 acres	$1,089,654,925
Potato Production	2,633 acres	658,250
Honey Production	88,539 hives	2,213,475
Greenhouse production	516,634 sq. ft.	1,291,585
		1,093,818,235

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the balance sheet of the Agricultural Credit Corporation of Saskatchewan as at March 31, 1987 and the statements of revenue, expenditure and accumulated surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.



Regina, Saskatchewan,
August 21, 1987,
except as to the fourth
paragraph of Note 3 which
is as of December 17, 1987.

W. G. Lutz, F.C.A.,
Provincial Auditor.

Balance Sheet
As at March 31

Statement 1

Agricultural Credit Corporation of Saskatchewan

	1987	1986
Assets		
Cash	**$ 544,247**	$ –
Other receivables	**119,835**	78,737
Loans receivable (Note 3):		
Capital loans, net	**148,317,859**	148,646,157
Production loans, net	**958,848,891**	876,484,713
Livestock cash advances, net	**163,292,868**	140,521,746
Other loans, net	**192,991**	213,289
Total loans receivable, net	**1,270,652,609**	1,165,865,905
Prepaid and unamortized costs	**4,133,105**	–
Office equipment (Note 2(d))	**297,916**	82,550
Total Assets	**$1,275,747,712**	$1,166,027,192
Liabilities and Province's Equity		
Liabilities:		
Bank overdraft	**$ –**	$ 26,916,623
Interest and other payables	**9,059,541**	7,851,397
Unexpended grants – (Note 5)	**2,075,617**	929,146
Department of Agriculture (Note 10)	**3,614**	13,317
Short and Long term debt (Note 4)	**1,263,843,000**	1,220,537,850
Total Liabilities	**$1,274,981,772**	$1,256,248,333
Province's Equity:		
Equity in office equipment	**297,916**	82,550
Accumulated surplus (deficit) – Statement 2	**468,024**	(90,303,691)
Total Province's Equity	**765,940**	(90,221,141)
Total Liabilities and Province's Equity	**$1,275,747,712**	$1,166,027,192

(See accompanying notes to the financial statements)

Statement of Revenue, Expenditure and Accumulated Surplus

Statement 2

Year Ended March 31

Agricultural Credit Corporation of Saskatchewan

	1987	1986
Revenue:		
Grants from the Province of Saskatchewan (Note 5)	**$165,362,313**	$45,796,054
Loan interest	**78,800,201**	22,278,242
Short-term investment income	**—**	969,189
Other revenue	**436,119**	380,133
Total Revenue	**244,598,633**	69,423,618
Expenditure:		
Administrative expenses (Schedule I)	**4,267,474**	3,397,124
Grant program (Notes 5 and 7)	**1,520**	4,386
Debt servicing costs (Note 4)	**126,862,046**	38,511,302
Bad debt expense (Note 3)	**22,695,878**	117,944,166
Total Expenditure	**153,826,918**	159,856,978
Excess of revenue over expenditure (expenditure over revenue)	**90,771,715**	(90,433,360)
Accumulated surplus (deficit), beginning of year	**(90,303,691)**	129,669
Accumulated surplus (deficit), end of year — to Statement 1	**$468,024**	$(90,303,691)

(See accompanying notes to the financial statements)

Statement of Changes in Financial Position

Year Ended March 31

Statement 3

Agricultural Credit Corporation of Saskatchewan

	1987	1986
Cash Provided By (Used In):		
Operating Activities:		
Excess of revenue over expenditure (expenditure over revenue)	**$90,771,715**	$(90,433,360)
Items not involving cash		
Increase allowance for loan losses	**20,898,983**	117,849,703
Write offs funded from allowances	**1,717,293**	103,046
Increase in interest due on loans receivable	**(14,432,125)**	(9,109,954)
Increase interest due on debt payable	**1,320,379**	2,535,621
Amortization of debt servicing costs	**781,121**	–
Other	**1,241,276**	948,904
	$102,298,642	$21,893,960
New loans advanced	**(190,494,189)**	(1,146,017,608)
Loans receivable repayments	**77,523,334**	23,506,145
Other loan receivables	**(257,841)**	159,555
Cash used in operating activities	**(10,930,054)**	(1,100,457,948)
Financing Activities:		
Short term debt incurred	**4,541,600,000**	2,141,944,850
Short term debt repaid	**(4,656,694,850)**	(1,091,500,000)
Medium term debt proceeds	**153,485,774**	–
Cash provided by financing activities	**38,390,924**	1,050,444,850
Net increase (decrease) in cash position	**27,460,870**	(50,013,098)
Cash position, beginning of year	**(26,916,623)**	23,096,475
Cash position, end of year	**$544,247**	$(26,916,623)

Cash position is comprised of cash and short term investments less bank overdraft.

(See accompanying notes to the financial statements)

Notes to the Financial Statements
March 31, 1987

Agricultural Credit Corporation of Saskatchewan

1. **Status of the Corporation**

The Agricultural Credit Corporation of Saskatchewan Act came into force on January 1, 1984 repealing **The Agricultural Incentives Act**, proclaimed July 3, 1973. This new Act established the Agricultural Credit Corporation of Saskatchewan as a continuance for the corporation known as FarmStart which was previously established by **The Agricultural Incentives Act**. Under this new Act, a fund known as The FarmStart Fund was continued as the Agricultural Credit Corporation of Saskatchewan Fund, through which all transactions reflected in these statements were conducted.

2. **Significant Accounting Policies**

a) Grants received from appropriated monies of the Consolidated Fund are used for the purposes specified by the Legislature and a separate accounting is maintained for each type of grant (Note 5). Any surplus remaining from the grants received by the Corporation during its fiscal year is to be repaid to the Consolidated Fund at the end of the fiscal year. The surplus repayable is reflected in the financial statements as a reduction of reported grant revenue.

Amounts recovered (net) from farmers in respect of the grants paid to them in prior years are retained by the Corporation as surplus and are used to fund any program expenditures which exceed the related appropriations received in a particular year.

b) The Corporation has adopted the accrual method of accounting. An exception to this principle is made in the case of grant programs administered by the Corporation wherein the expense is not recognized until the grant payment is made. Effective August 31, 1982 the grant program was discontinued. Similarly, expenses associated with guaranteeing loans extended by commercial lending institutions are not recognized until a claim for loss is submitted by the institution (Note 6).

c) The short-term investments are stated at cost which approximates market value.

d) Office equipment is shown at cost and is expensed during the year of purchase. To maintain accountability for these assets, they are recorded on the balance sheet as assets with an offsetting equity account.

e) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and included in Debt Servicing Costs. The unamortized costs are carried on the Balance Sheet in Prepaid and Unamortized costs.

f) Bonds and the related interest thereon payable in foreign currencies are hedged by currency contracts and are converted into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are considered to be financing costs and are therefore amortized by charges to Debt Servicing Costs on a straight-line basis over the life of the debt.

3. **Loans Receivable and Allowances for Losses**

Capital Loans

Loans are repayable, with interest, over terms not exceeding fifteen years. The loans bear interest at rates varying between 6% and 14% depending on the year of issue. Security on individual loans varies according to what is considered adequate in the particular circumstances, and includes mortgages on real property, security agreements and guarantees, as well as insurance on the lives of the borrowers.

Production Loans

Under the Production Loan Program introduced in January, 1986, the Corporation provided farmers, bee colony owners, potato producers and greenhouse producers with loans which bear interest at 6% repayable in equal principal installments over a term of three years. Loan disbursements on this program expired December 31, 1986. Loans are secured by promissory notes and, where applicable, by shareholder guarantees.

In December, 1986, the Corporation announced that borrowers would be provided with the option of amending the term of their existing loans to postpone the first principal payment and to extend the term of their loans by one year. Approximately 85% of the borrowers chose this option.

In December 1987 the Corporation announced that borrowers would be provided with a further option of repaying the principal in ten equal principal installments commencing on their anniversary date in 1988. Those funds which would have remained outstanding under the existing payment arrangement will continue to bear interest at 6%. The balance of the funds will be at 9¾% interest rate.

Livestock Cash Advances

Under the Livestock Cash Advance Program introduced in August, 1985, the Corporation provides livestock producers with loans which are interest free for twelve months from the date of disbursement or less if the number of livestock is reduced. Upon expiry, borrowers are provided with the option of amending the term of their existing loans to extend the interest free due date of their loans by one year, based upon their livestock inventory. Loans are secured by promissory notes and, where applicable, by shareholder guarantees.

Effective August 1, 1987, the Corporation amended its policy to provide interest free loans for 70% of the producers' livestock herd. As existing loans mature, the loan amount which represents 30% of the livestock herd must be repaid or may be converted to a term loan bearing interest at 8% repayable in three equal principal installments commencing one year from the conversion date.

Other Loans

Under Parts VI, VII and VIII of the Regulations under The Agricultural Incentives Act, the Corporation was authorized to make cash advances to cattle farmers for the purpose of maintaining their breeding stock. This program expired on March 31, 1980, and all loans and accrued interest became due and payable.

Allowance for Losses

Loans and interest receivable is shown net of allowances for losses as follows:

	1987	1986
Capital Loans		
Principal receivable	$ 153,727,866	$152,152,889
Interest receivable	9,514,463	7,840,126
	$ 163,242,329	$159,993,015
Allowance for losses	(14,924,470)	(11,346,858)
	$ 148,317,859	$148,646,157
Production Loans		
Principal receivable	$1,047,661,820	$965,254,765
Interest receivable	20,568,895	7,984,261
	$1,068,230,715	$973,239,026
Allowance for losses	(109,381,824)	(96,754,313)
	$ 958,848,891	$876,484,713
Livestock Cash Advances		
Principal receivable	$ 184,420,570	$157,127,021
Interest receivable	183,591	12,690
	$ 184,604,161	$157,139,711
Allowance for losses	(21,311,293)	(16,617,965)
	$ 163,292,868	$140,521,746
Other Loans		
Principal receivable	$ 165,147	$ 187,167
Interest receivable	92,915	90,661
	$ 258,062	$ 277,828
Allowance for losses	(65,071)	(64,539)
	$ 192,991	$ 213,289

4. **Borrowing**

Under Section 19 of **The Agricultural Credit Corporation of Saskatchewan Act** the Corporation may, with the approval of the Lieutenant Governor in Council, borrow monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000.

All funds borrowed under the line of credit are at the bank's prime rate of interest.

All debt is repayable in Canadian monies except as otherwise noted.

As of March 31, 1987, the following borrowing was outstanding:

Province of Saskatchewan — Consolidated Fund:

Long Term — Debentures

Due Date	Interest Rate	Amount
July 2, 1994	8.58%	$ 2,600,000
August 1, 1994	9.05%	4,839,000
September 3, 1994	8.92%	3,733,000
November 1, 1994	9.25%	3,573,000
December 2, 1994	9.07%	3,100,000
January 2, 1995	8.63%	2,397,000
February 3, 1995	8.46%	3,576,000
March 3, 1995	8.38%	4,633,000
May 1, 1995	8.65%	1,500,000
November 3, 1995	9.48%	4,031,000
December 1, 1995	8.95%	3,155,000
January 5, 1996	9.14%	2,036,000
February 2, 1996	9.07%	3,060,000
March 1, 1996	9.06%	7,639,000
April 1, 1996	9.03%	6,399,000
June 1, 1996	9.00%	3,170,000
August 3, 1996	8.98%	5,194,000
September 1, 1996	9.07%	5,000,000
May 10, 1998	9.49%	4,657,000
June 2, 2000	12.01%	13,572,000
July 3, 2000	11.82%	5,735,000
December 1, 2000	13.30%	3,273,000
January 5, 2001	13.18%	1,648,000
March 2, 2001	13.13%	4,372,000
July 2, 2001	14.81%	9,044,000
September 1, 2001	17.01%	7,544,000
November 2, 2001	17.51%	1,551,000
December 1, 2001	15.93%	4,253,000
January 4, 2002	14.51%	5,167,000
March 1, 2002	16.10%	5,441,000
July 5, 2002	15.38%	11,310,000
August 3, 2002	16.53%	9,124,000
April 5, 2003	11.59%	13,517,000
		$169,843,000

Medium Term — Bonds

Due Date	Interest Rate	Amount
September 12, 1989	6.25%	$ 68,400,000*
February 12, 1990	8.50%	90,000,000**
		$158,400,000

* Swiss Franc/Canadian Dollar dual currency converted to Canadian Dollars with interest payable in Swiss Francs and principal repayable in Canadian dollars.

** Euro Canadian Dollar issue.

Short Term — Promissory Notes

June 30, 1987	7.05%	$ 935,600,000
		$ 935,600,000
Total Debt		**$1,263,843,000**

The debt servicing costs on each type of debt was as follows:

	1987	1986
Interest on long term advances	$20,224,484	$20,224,484
Interest on medium term advances	3,252,563	—
Interest on short term advances	102,031,842	17,471,823
Bank Interest	239,832	814,995
Amortized Bond Costs	1,113,325	—
	$126,862,046	$38,511,302

5. **Appropriations from Province of Saskatchewan — Department of Agriculture**

Under Section 29 of **The Agricultural Credit Corporation of Saskatchewan Act**, the Minister of Agriculture may make grants to the Corporation out of monies appropriated by the Legislature. During the year ended March 31, 1987, grants were received for the payment of administration costs, interest on borrowed funds, losses incurred on loans extended under the Act, and costs incurred by honouring guarantees made under the Act. Furthermore, the Corporation is required to repay to the Consolidated Fund any surplus remaining from the grants received by it during the year. Amounts recovered (net) from farmers in respect of the grants paid to them in prior years are retained by the Corporation as surplus (Note 2(a)). The following table summarizes activity for the year ended March 31, 1987.

6. **Guaranteed Loans Under The Agricultural Credit Corporation of Saskatchewan Act**

As indicated in Note 2(b), the Corporation provides guarantees on loans extended to farmers by commercial banks and credit unions. Until December 31, 1983, the Corporation guaranteed 80% of the outstanding balance of livestock loans made to farmers for expanding their livestock herds and at March 31, 1987, the contingent liability of the Corporation on outstanding loans is $117,079 (1986 — $110,157). Capital Loan clients and feeder lot operators may also be approved for guaranteed operating loans to help finance their operations. Loans to capital clients made prior to January 1, 1984 are guaranteed for 80% and loans made commencing January 1, 1984 are guaranteed for 90% of the outstanding balance. Loans to feedlot operators are guaranteed for 80% and expired December 31, 1986. At March 31, 1987, the contingent liability of the Corporation on outstanding operating loans is $731,464 (1986 — $83,782).

7. **Commitments**

As indicated in Note 2(b), the Corporation does not recognize grant expenditures until the grant payment is made. At March 31, 1987 the Corporation had grants under the Capital Loan Program approved prior to August 31, 1982 but not disbursed of approximately $1,097 (1986 — $12,809).

At March 31, 1987, there were approximately $5,873,154 (1986 — $5,615,454) in capital loans approved but not yet disbursed.

	Administration	Grants to Farmers	Interest Subsidy	Loan Losses	Livestock Loan Guarantees	Total
1986-87						
Total Appropriations	$4,223,130	$ —	$ 63,574,000	$113,214,800	$ —	$181,011,930
Grant Proceeds Received	$4,223,130	—	$50,000,000	$113,214,800	$ —	$167,437,930
Gross Expenditures	4,267,474	1,520	126,862,046	22,744,749	—	153,875,789
Add — Prior Year Deficit	—	—	—	90,697,822	—	90,697,822
Add — Surplus Retained (Note 2(a))	—	65,613	—	—	8,280	73,893
Add — Transfer to Loan Losses	—	178,900	—	—	—	178,900
Less — Transfer from Accumulated Surplus	—	—	—	(178,900)	—	(178,900)
Less — Gross Revenues	(181,806)	(246,033)	(78,800,201)	(48,871)	(8,280)	(79,285,191)
Net Expenditure for Purpose Specified	4,085,668	—	48,061,845	113,214,800	—	165,362,313
Unexpended Grants Payable	$ 137,462	$ —	$1,938,155	$ —	$ —	$ 2,075,617

In March, 1986, the Corporation announced its intention to relocate its Head Office from Regina to Swift Current. This move, which is scheduled to occur in 1987, results in commitments for employee relocation costs and other costs which will be beyond those normally incurred in the operation of the Corporation.

8. **Related Party Transactions**

In accordance with established government policy, the Corporation has not been charged with certain costs including occupancy of sixteen offices. These costs have been absorbed by various departmental appropriations and therefore no provision for such costs is reflected in these financial statements.

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and notes thereto.

9. **Executive Salaries**

Included in Salaries and Benefits on Schedule 1, are executive salaries of $169,957 (1986 — $204,130), paid to three executives.

10. **Payable — Department of Agriculture**

The Corporation administers Conservation and Land Improvement Loans for the Department of Agriculture. Interest and repayments of principal received from farmers are recorded as payable to the Department of Agriculture.

11. **Comparative Figures**

Certain amounts have been reclassified to conform to the current year presentation.

Schedule of Administrative Expenses
Year Ended March 31

Schedule 1

Agricultural Credit Corporation of Saskatchewan

	1987	1986
Salaries and benefits (Note 9)	**$2,565,928**	$2,433,431
Data processing costs	**581,500**	318,786
Travel and sustenance	**192,941**	161,109
Printing and stationery	**99,848**	138,246
Professional services	**256,987**	113,046
Telephones	**67,178**	85,939
Advertising	**49,883**	84,291
Security searches and registration fees	**35,692**	20,905
Purchase of office equipment	**217,388**	5,118
Miscellaneous administrative costs	**200,129**	36,253
Total administrative expenses	**$4,267,474**	$3,397,124